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OFFICE OF CURRENT INTELLIGENCE
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OCI No. 3041/62

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: ITALY

1. Premier Fanfani's government, formed on 22 February after extensive controversy, is an important milestone in Italian politics. Fanfani's Christian Democratic party (CDP), which controls about 40 percent of the vote and includes a wide variety of political views among its membership, is now attempting a historic "opening to the left"--that is, a political understanding with Pietro Nenni's Socialists, Italy's third largest party, which controls some 15 percent of the vote. By this arrangement Fanfani's coalition of Christian Democrats, Social Democrats and Republicans receives parliamentary support from Nenni's party for the enactment of long-needed socio-economic reforms which could undercut the appeal of the Communists. The "opening" is opposed by those who feel that the Socialist party continues suspect because of its unity-of-action pact with the Communists, which was not broken until 1956. The "opening" is opposed even more strongly by vested economic interests within and outside the CDP who fear the effects of the government's economic reform policies. The President of the Republic, former Foreign Minister Segni, is unenthusiastic about the experiment.

2. The Italian Communist party has shown steady increases in every Italian election from 1948 through 1960 to a point where about 25 percent of the electorate now votes Communist. Continued Communist strength in the face of Italy's postwar "economic miracle" is due partly to the fact that economic benefits have not been adequately distributed either

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geographically or socially. In addition, the Communists have profited from strong public cynicism over long-standing bureaucratic corruption, and the widespread feeling that workers' interests have not been adequately reflected in government policy. The break in the Communist-Socialist alliance, however, and the subsequent Socialist-Christian Democratic rapprochement, appear to have seriously disoriented the Communist party--perhaps even more than the ambivalent foreign and domestic policies of Moscow itself. For the first time the Italian party showed some losses in the local elections of 1962. Although Togliatti continues to maintain firm control, there are indications of serious strains within the party over strategy with regard to the present Fanfani government and the Socialists.

3. The Socialist party--increasingly disenchanted following the Hungarian revolt and Khrushchev's denigration of Stalin in 1956--has cut national political ties with its former Communist allies and moved from the parliamentary opposition into a position of benevolent abstention. It is expected to give direct support on specific domestic reform legislation. Nenni has been the motivating force in this process, and his disappearance from the scene would probably slow it down, but not bring it to a halt. The Socialists are increasingly jettisoning the Communists from local administrations and forming governments with the Christian Democrats, with whom they now govern about 100 localities, including Rome and all large Italian cities with the exception of Turin, Bologna, Palermo and Naples; attempts to form such a government in Naples are under way. The Socialists remain linked with the Communists in cooperatives, some 1800 small local governments, and in Italy's largest labor confederation, the Communist-dominated CGIL. The Socialists, however, have now joined with the cabinet parties in sending representatives to periodic meetings for coordination of labor policies--a possible first step toward breaking with the Communists in the CGIL. Disentangling from the Communists in the labor field, however, is bound to be a delicate and protracted process if the Socialists are to avoid losing their mass support. They are increasingly engaged in a bitter polemic with the Communists over Italian government policies, Soviet censorship, and the undemocratic nature of communism.

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4. The new government has made progress with its reform program, which previous governments were unable to accomplish. It has moved to plug tax loopholes--a particularly serious need in Italy--to accelerate and expand the school program, and to increase social security pensions. It has also passed measures liberalizing censorship, and has begun to carry out the provisions of the 1946 constitution for regional administrations as a safeguard against the Italian tendency to concentrate authority in the national government. This government has also been the first to be represented at a series of government-management-labor meetings called at its initiative. Its most controversial measure has been the bill for nationalization of electric energy--a quid pro quo for Socialist support of the government. This is to be the first order of business when parliament reconvenes in September. It is expected to pass and no serious economic dislocation is anticipated. However, strong efforts will be made by right-wing elements to postpone the final vote until the national elections which are due in the spring of 1963.

5. In foreign policy, this Socialist-backed government has continued the strongly pro-Western stand of previous Italian governments and continues to cooperate closely with major US goals. The Socialist party has accepted NATO as an instrument of defense, and Italy continues to maintain US missiles on Italian soil. One house of parliament has already passed a seven and a half percent increase in the defense budget--which, however, continues to be one of the lowest in Western Europe in relation to the GNP. In this vote the Socialists abstained, refusing for the first time to join the Communist opposition on this issue. A Socialist spokesman on defense matters stated that in view of East-West defense increases it would be unrealistic to ask for a reduction in Italy's defense budget.

6. The Fanfani government continues efforts to promote Italian economic influence abroad, and the government's petroleum holding company, headed by oil tycoon Mattei, continues to spread its operations in the Middle East, Western Europe, and Africa. Trade with the Soviet Bloc continues to amount to about six percent of total Italian trade and as

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part of an Italian-Soviet trade agreement in 1960, Mattei arranged to supply large-diameter pipe to the Soviets in exchange for imports of Soviet oil. (About 14 percent of Italy's oil now comes from the Bloc.) Italian industrialists in north Italy have appeared encouraged by the cordial reception which Moscow gave the Italian trade exhibit there this year, but there is no information available as to orders received. Total Italian exports to Communist China amounted to about \$29 million in 1961. Mattei has long been resentful toward US oil companies and others for having left him out of the "seven sisters" Iranian oil consortium of the early 1950's. In 1957 Mattei made an oil exploration agreement with Iran which continues operative. The present Italian government, like previous ones, agrees in principle with the program for Western aid to underdeveloped countries, but has dragged its feet on Italian economic and military aid to Somalia and points to the need for rehabilitating underdeveloped areas of southern Italy.

7. If the Italian experiment in center-left Socialist-backed government succeeds in delivering needed reforms, it can be expected over the long haul to maintain the strength of the Christian Democrats and to isolate and cut into the popular appeal of the Italian Communist party. Success of the experiment could strengthen parliamentary government in Italy--whose workings are now impaired by the strength of the extremist parties. If the experiment fails, Italy will be in for a long period of political instability. In 1960, a two-month political stalemate during which no government could be formed was followed by an experiment in minority government based on neo-Fascist support. The resultant anti-Fascist demonstrations were parlayed by the Communists into widespread and serious riots. Failure of the center-left experiment could be expected to encourage polarization of Italian politics by sending the Socialist following, as well as other left-of-center groups, toward the Communists. ✓

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